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SIPDIS

FOR SA, SA/INS,D, LONDON FOR POL/RIEDEL; NSC FOR E.  
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PASS TO USAID, AMBASSADOR, WENDY CHAMBERLAIN, AA/ANE;  
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ANE/SA

E.O. 12958: N/A

TAGS: [EAID](#) [CE](#) [LTTE](#)

SUBJECT: FIFTH CORE TOKYO GROUP AND WIDER GROUP MEETING

1. SUMMARY: The Core Group meeting provided an update on the status of the upcoming Seminars, workshops and planning sessions in Washington, Colombo and Japan in preparation for the June 9-10 Tokyo Donor Conference. The agenda for Tokyo is evolving and the latest version referenced below has been faxed to the State Desk Officer. Topics discussed at the meeting included the recently concluded World Bank meetings on Sri Lanka, an update on the Washington seminar, the bilateral donor draft Principles for Development and Peace paper, ADB/WB/UN needs assessment document and the Sri Lanka/Japan private sector meeting following the Tokyo Donor Conference. END SUMMARY

2. Minister Moragoda chaired. He reported on his positive meetings with the EU and some member country representatives and thanked the EU for agreeing to co-chair the Tokyo Donor Conference. He indicated that one of the topics discussed with the EU was the need for an expanded Sri Lanka Monitoring Mission.

3. Minister Moragoda will hold bilateral meetings with Canada and Holland on the margins of the Washington seminar and will also meet with the UN Secretary General Anan and World Bank President Wolfensohn. Other meetings may be scheduled. The Minister said that the Indian Ambassador to Washington was likely to attend since the Indian Finance Minister will not attend the World Bank meetings.

4. The Japanese Ambassador reported on the changes in the draft Tokyo Conference agenda based on meetings held with the Multilaterals on April 4 in Tokyo as follows:

-- In Plenary Session 2 following Norway's general remarks, summary reports will be given on the outcome of the Colombo Civil Society and Private Sector meetings. Three new organizations have been invited to participate in the Tokyo meeting: IFAD, IOM and OPEC. The Japanese Ambassador indicated that the World Bank remarks might be moved from the concluding session to one of the plenary sessions.

-- In the First Operative Session the ADB and UNDP will talk on the Needs Assessment and in the Second Operative Session the World Bank and IMF will report on Sri Lanka's economic performance and reconstruction and development agenda.

5. The World Bank's representative, Peter Harrold, reported on the PRSP/Regaining Sri Lanka and CAS review. Support was strong among Board members for overall lending with approval of \$850 million over four years with the provision for up to one billion based on performance. Harrold said that if the World Bank meeting was the curtain raiser for Tokyo, it would appear that now is the time for support to Sri Lanka. He also indicated that a two hour meeting was held with US officials prior to the Board review. Minister Moragoda told the group that the GSL needed to look at the concerns raised at the meeting and address them. These concerns mainly revolved around the issue of sufficient consultations prior to drafting the Regaining Sri Lanka document. Harold suggested that there should be a renewed emphasis on an ongoing consultation process and there was a particular need to establish a mechanism for consultations with civil society.

6. Ambassador Wills informed the group of efforts to devise a statement of principles by bilateral donors to be put before the negotiating sides prior to Tokyo, preferably at the next round of talks. If widely accepted, the document will be issued at the Tokyo Conference. Minister Moragoda emphasized that while he and the GSL supported the idea of such a paper, he didn't want the GSL's economic program stalled as a result. Ambassador Westborg, who had participated in discussions on the Principles paper, said the sooner the paper came out the better to allow time for the two sides to review and discuss it. Ambassador Wills commented that he did

not want representatives from either side to think that the donors were ganging up on them. The Japanese Ambassador, who has been reluctant to discuss openly the "Principles" paper, has greatly softened his position after meeting with Ambassador Wills and the small group of other bilateral donor principals. The Japanese Ambassador agreed with Ambassador Wills that the document should be provided to the two sides as expeditiously as possible and that the message should be succinct and pragmatic. The objective was not to scare off the LTTE and jeopardize their participation in Tokyo. Ambassador Wills quipped that if the "Principles" scared them off, we don't want to give them money anyway!"

17. Peter Harrold reported that the Needs Assessment document had been completed and had just been sent to the GSL and the LTTE simultaneously. The GSL and the LTTE have just been given a copy of the Multilateral Needs Assessment. The GSL will forward it to donors, civil society and the private sector in the next two days but the timeframe with comments due by April 22 in preparation for the next round of peace talks on April 29.

18. According to Harrold, the cost estimates arising from the needs assessment have gone down from 1.6 to 1.3 billion since the donor briefing last week and greater attention has been paid to phasing to take into account capacity to absorb the funds. Minister Moragoda expressed concern about the possible macro economic implication of the package and about the raised expectations on the part of the LTTE as to how quickly funding would be implemented. It was agreed that the IMF would run a macroeconomic filter through. Ambassador Wills sought clarification of a comment made at the last meeting that the LTTE would only agree to projects that provided state-of-art reconstruction and equipment. Harrold indicated that the LTTE had become more pragmatic in saying that what it wanted was for the North and the East to get to the level of the rest of the country and then march forward together. The World Bank representative told the group that in terms of volume, time and phasing, the Assessment was considered practical.

19. The Japanese Ambassador reviewed Tokyo's comments on the planning process for the Colombo seminar and the Tokyo civil society and private sector meetings. Tokyo is currently planning a meeting for civil society, Japanese NGOs, the GSL and LTTE on June 8 and a private sector meeting covering trade, investment and tourism on June 9.

10. The Japanese are looking to the GSL to provide a comprehensive incentive package to attract Japanese investors, a package with data on investment opportunities and a package of measures on deregulation, tax schemes, access to resources and infrastructure. On May 6 Japanese officials and representatives of the two largest Sri Lankan Chambers of Commerce have been invited to a meeting to provide the private sector view about what is needed to attract foreign investment. The Japanese Chamber of Commerce will organize the private sector meeting. Ambassador Wills suggested that the US would be interested in hearing about the package of incentives the GSL was putting together in preparation for the private sector meeting in Japan.

11. The Wider Tokyo Group meeting followed immediately after that of the Core Group. Minister Moragoda thanked the EU for agreeing to co-host the Tokyo meeting and for the positive meetings he had in Brussels. He also took the opportunity to thank the donors who supported the GSL at the recent World Bank Board meeting. Since the IMF conditions have all been met, the Minister was hopeful that the review would also go smoothly. The Minister then provided a summary of the status of preparations for the Colombo meetings and asked for short briefings from the Japanese Ambassador, the World Bank, UN representatives and Ambassador Wills. Peter Harrold provided a status report on the Needs Assessment and the timing for comments as discussed in number 7 & 8.

12. COMMENT: The Japanese Ambassador and GOJ appear to be more favorably disposed to the idea of a Principles paper but are concerned about the reaction of the LTTE. Although there continues to be wordsmithing on the Principles paper, feedback from the other donors has been Positive. (The draft statement of principles will be cabled to Washington by septel.) After initial feedback on the findings of the Needs Assessment, we are told that the document has been revised to reflect greater prioritization, sequencing and attention to absorptive capacity. The GSL is particularly concerned that the assessment fit in the economic framework but others are concerned about raising unrealistic expectations on the

speed with which this level of assistance can be  
implemented. END COMMENT

WILLS